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ادارة التحليل لشؤون الشرق الاوسط وجنوب آسيا
המחלקה לענייני המזרח התיכון ודרום אסיה
اداره تحريه و تحليل خاور ميانه و جنوب آسيا
Office of Near Eastern and South Asian Analysis
Directorate of Intelligence

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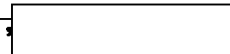
28 March 1985

Mr. Jock Covey
Special Assistant to the President
for National Security Affairs
National Security Council

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Jock,

The attached memorandum addresses the near-term prospects for instability in Iran, and I thought you would find it of interest. A number of forces are coalescing that could result in serious political instability even before Khomeini dies. We believe the regime would attempt new policy initiatives to regain support if seriously threatened.

Chief,  DIVISION

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APPROVED FOR RELEASE
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Central Intelligence Agency



Washington, D.C. 20505



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Iran*

DIRECTORATE OF INTELLIGENCE

28 March 1985

Iran: Prospects for Near-Term Instability

Summary

Dwindling oil income, increasing domestic unrest, and the recent battlefield defeat in a seemingly unending war are confronting the Khomeini regime with its greatest challenges since consolidating power three years ago. Leadership problems are emerging as Ayatollah Khomeini's physical and mental health are faltering. As a result, Tehran is losing its margin for error--both political and economic--in meeting popular expectations. We now believe that serious political instability could occur in Iran before Khomeini dies--rather than after his death as was concluded late last year in a Special National Intelligence Estimate. If the clerics believe their control is seriously threatened, they would attempt to survive by initiating radical changes in oil sales policies, war strategy, terrorism, and relations with the USSR that would have major implications for the West.

* * * * *

Iran probably would be relatively stable immediately after Ayatollah Khomeini's death, but that factional rivalries and consequent instability would likely increase over

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time. We now believe that most of the major economic, political, military, and social trends are working against the Khomeini regime and that instability could increase significantly in Iran before the Ayatollah dies. This would make the period after Khomeini's death less smooth than we anticipated late last year, and probably would advance the timeframe of the power struggle within the regime that the Estimate concluded might produce civil war before the emergence of another strong leader [REDACTED]

Latest Defeat. Iran's latest offensive was a dismal failure despite months of preparation. Iran gained no territory and suffered at least 30,000 casualties, including a minimum of 15,000 killed. Unlike the aftermath of past Iranian attacks, Baghdad this time is not allowing the Iranians time to regroup and is launching small ground attacks along the front, bombing Iranian cities, and continuing its attacks against tankers carrying Iranian oil. Although the regime will try to limit news of the defeat through control of the media, the heavy casualties eventually will become known and further depress those already tired of the unending war.

[REDACTED]

The Iraqi air raids on Iranian cities have shaken the Khomeini regime, are lowering morale, and disrupting the economy. [REDACTED]

[REDACTED]

The greatest impact of these developments likely will be felt within the regime itself. Senior leaders undoubtedly are aware of the dimensions of Iran's defeat. They already are split over the question of continuing the fight, and their differences now are likely to become more bitter. This dissension will in turn sharpen the controversy over other issues such as the succession question and how to deal with Iran's economic problems.

[REDACTED]

Economic Downturn. The regime's economic troubles stem in large part from sharply reduced oil income. The soft oil market and Iraqi attacks against oil tankers have reduced Iranian oil receipts by about 30 percent since August 1984. As a result, the government can no longer rely on oil-financed imports to maintain consumption levels and provide materials for domestic industry. [REDACTED]

Iran has tapped foreign currency reserves in the past year to maintain imports, but this option is rapidly disappearing. Readily accessible reserves are now down to about \$3 billion--the lowest level since the revolution--compared with \$8 billion a year ago. This level--less than three months of import coverage--is far below what Tehran considers necessary to cover an emergency. Moreover, Iran has little access to long-term foreign credit. As a result, Tehran has reimposed strict foreign currency controls and has been forced to slash imports. [REDACTED]

Lower oil revenues also have caused spending cuts. With receipts about \$5 billion below budget projections, Tehran cut spending by 5 percent

during the recent budget year that ended on 21 March. In late February, the Consultative Assembly passed budget guidelines for the new fiscal year that called for a further 10 percent cut in spending, a 30 percent rise in taxes, and higher heating oil and gasoline prices. []

Emerging Opposition. Economic austerity is adding to domestic unrest and regime spokesmen are warning publicly that the populace must lower its expectations. This is in sharp contrast to the regime's earlier advice that the present hardships would lead to better times in the future. Increased shortages, inflation, and unemployment have already triggered strikes and antigovernment demonstrations, []

[] recent economic troubles have hit hard the lower class--the base of the clerics' political support--and that these people are now more willing to show their dissatisfaction openly. We also believe that critics of the regime probably have gained support among poor urban migrants and war refugees who have flocked to the cities and are overloading public services. []

There are tentative signs of coordinated opposition among industrial workers. A variety of sources have reported that strikers in several Iranian cities recently timed their actions to support each other. The government probably is particularly concerned about labor unrest in Esfahan, Iran's second largest city and an industrial center, where there is long-standing leftist strength. According to the Iranian exile press, a secret Iranian labor organization--the Solidarity Committee of Iranian Workers--has claimed responsibility for the strikes. []

Political Ferment. Infighting among factions within the regime is on the increase--partly because leading Iranians realize that Khomeini may not live much longer--and is complicating regime efforts to deal with its problems. Radicals are trying to win Khomeini's endorsement of their views, hoping to silence their rivals' call for more moderate policies. The radicals want to use an aggressive foreign policy to keep Iran isolated and revolutionary. []

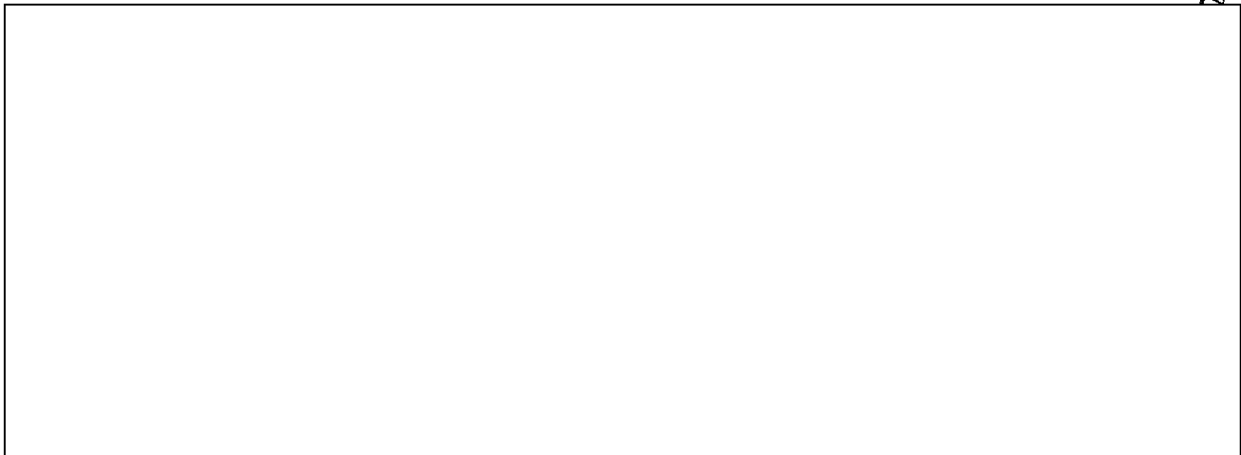
Adding to factional disputes, the Hojatieh--an ultraconservative faction that has strong support among merchants and the armed forces--recently announced its support for a senior cleric in Mashhad--Ayatollah Qomi--after he publicly declared that concepts used to justify Khomeini's position as supreme political-religious leader were unIslamic. Qomi has long articulated popular frustration with the regime, but he is now emerging as a spokesman for those who oppose radical efforts to promote Ayatollah Montazeri as Khomeini's successor. In February, Qomi also declared that the continuation of the war with Iraq was unIslamic just



after Khomeini delivered a major speech calling for Iranians to fight on until the Iraqi government is toppled. At about the same time, Ayatollah Khoi--the most senior Shia cleric, long time foe of Khomeini, and predominant spiritual leader of the Hojatieh--broke six years of self-imposed silence toward the Khomeini regime to condemn the war as unIslamic. [redacted]

Splits in the Revolutionary Guard. Although never cohesive, the Revolutionary Guard has become even less unified as the commitment of young men to the regime has decreased. Experienced Guard officers are especially disillusioned. [redacted]

Moreover, factional political infighting recently has spilled over into the Guard. All factions in the regime recognize the Guard as crucial to maintaining clerical control and want to line up support within the force. [redacted]



Khomeini's insistence on continuing the war has been the main obstacle to a more flexible Iranian position. His remarks on war policy on 21 March--after the latest defeat--are open to various interpretations, one being that he is softening his position. Khomeini said that God would not punish Iran for failing to defeat an enemy if Iran had tried its best to fulfill God's command to fight "oppression." His remarks could mean there is no shame in defeat and the struggle should continue, but they also could be interpreted as meaning there is no shame if Iran ends the war.

Regime Strengths

The Khomeini regime still possesses several assets that it can use to help it survive the current pressures as well as the death of the Ayatollah:

- The Iranian people are unlikely to shift their allegiance completely until another strong individual emerges who can enunciate and embody a compelling alternative to Khomeinism.
- No group or individual capable of exploiting popular dissatisfaction with the Khomeini regime has emerged. Anti-regime exiles are factionalized and have little following in-country.
- The Iranian populace retains a powerful desire for a government guided by Islamic principles and independent of both the superpowers.
- Tehran has recently removed some individuals who abused their positions, such as Asadollah Lajvardi, the infamous Tehran Revolutionary Court Prosecutor and warden of Evin Prison.
- Despite problems in the Guard, Tehran maintains means of repression that cannot be matched by any of its Iranian opponents and the regime does not hesitate to use them. Even influential moderates fear that if they press their views too aggressively they will be eliminated by security forces or thugs controlled by their radical rivals.
- The regime controls the media tightly, and is able to disseminate its own interpretation of events or suppress information it does not want known.



Perhaps most importantly, the clerics and their secular allies appear to understand the consequences of unbridled competition among themselves. Khomeini's withdrawal has encouraged negotiations among faction leaders over how to cope with Iran's problems without Khomeini. Assembly Speaker Rafsanjani--whom we believe is second only to Khomeini in power--noted in early February, for example, that factional disagreements over the management of foreign trade had been overcome and that legislation striking a compromise between central control of the economy and a dominant role for the private sector would soon be passed. []

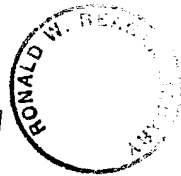
Iranian Options

Despite these strengths, the Khomeini regime is now facing the most serious challenges to its control since it crushed the armed Islamic Marxist Mujahedin-e Khalq in mid-1981. The absence of any near-term prospect for a reversal of the trends against the regime means that Tehran's margin of error has narrowed to the point that it can ill-afford policy errors, intensification of existing problems, or additional troubles. If the clerical regime concludes that its control is seriously threatened, it may look for ways to save itself by initiating radical policy shifts on the war, oil sales, terrorism, or relations with the USSR that would have major implications for the West. []

Ending the War: Negotiate. Iran could reverse its position and seek to end the fighting. In September 1980, when Iran faced similar challenges, Khomeini suddenly announced guidelines for resolution of the US hostage crisis through the Consultative Assembly. Prior to that statement, he had seemed as adamantly opposed to negotiating with the United States as he has been about dealing with Iraq. The Iranian constitution also allows for a popular referendum on "very important problems" at the request of two-thirds of the Assembly. A negotiated end to the conflict, however, probably would provide the regime only a brief respite because popular morale is likely to fall again unless the regime reverses the economic slide. Ending the war would free some economic resources, but would not improve the oil market, which would be further weakened if Iran and Iraq increased oil exports. []

Ending the War: Attack. Iran could attempt another "last ditch" military offensive, hoping to eliminate Iraqi President Saddam Husayn and set the stage for resolution of the conflict. Tehran still has large forces intact, but probably would need some time to prepare another large ground attack. Many Iranian moderates probably have supported this option--promoted by radicals--because a successful effort would put Iran in a stronger position, while failure would discredit the radicals and might trigger Khomeini's agreement to pursue peace. Although we still believe Iran is unlikely to achieve its political aims against Iraq with military force, should such a victory occur, the influence of Iranian radicals would be dramatically strengthened and the confidence of regional governments in the United States seriously undermined. []

Boost Oil Production. Tehran could sharply increase oil production and discount prices to try to generate greater revenues. In late 1981, Tehran reversed its oil pricing policies and dramatically lowered prices in



line with the rest of OPEC to restore Iran's finances. [REDACTED]

[REDACTED] Iran has been one of the few OPEC countries to remain within its production quota since last summer because its professional oil industry managers fear a disastrous collapse of prices. Iran--the second largest OPEC oil producer--could cause strong downward pressure on prices if it tried to undersell its competitors. Given the soft oil market, however, such a move would risk discounts by other OPEC members that would more than offset whatever revenue gain for Iran that additional oil sales might bring. [REDACTED]

Deal with Moscow. The Khomeini regime could mute its strong anti-Sovietism in order to help ease external pressures. During the hostage crisis, Tehran apparently felt it bought some protection by reducing anti-Soviet propaganda and playing down its anger over the invasion of Afghanistan. Moscow is now publicly demanding progress on these issues before relations can improve. Tehran has made recent overtures toward Moscow because of Baghdad's improved ties with the United States and Iranian concern that the United States may be preparing to retaliate for Tehran's involvement with Muslim terrorists. Even moderates could go along with radical proposals for closer ties with Moscow if the regime believed US action against Iran was imminent. [REDACTED]

Terrorist Spectacular. Iran has adopted terrorism as a state policy to advance its foreign and domestic goals and could increase significantly its efforts in this field. Iranian moderates have become increasingly skeptical of the usefulness of terrorism, especially when innocent bystanders are hurt, but the radicals consider terrorism a primary means of protecting Iran's revolutionary image abroad and undercutting their rivals at home. Both factions might agree on a broad program of strikes against US interests in the region and in Western Europe, however, to rally the populace against perceived threats by the United States. [REDACTED]